

## Factors Impact on Internal Audit Effectiveness: The Case of Duhok University in Kurdistan-Iraq

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### Abstract

This study investigates the factors impact on internal audit effectiveness (IAE) in Kurdistan Iraq. Data were collected from 15 directors of Colleges and 15 internal audit managers at University of Duhok. The relationship between IAE and three principle factors has been examined using multiple regression analysis. Findings reflect that management support for IAE perceived effectiveness of internal audit from both directors of colleges and internal auditor's perspective. Management support is related to occupy experienced and trained staff, providing sufficient resources. However, this study found insignificant relationship between independence of the internal audit and internal audit effectiveness.

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## INTRODUCTION

Internal audit is overseeing the financial compliance and internal control of an organization. Internal audit is necessary not only for private sector organizations but also for public sector. Public sector noun as government sector conduct their activities under the monitor of internal audit department. Internal auditor knows much more about government activities and behavior whether all their activities fulfill with the policy or not. The internal audits will maintenance the clean governance or good governance to be achieved. Effectiveness is the proxy to assess whether the aims of the organization has been accomplished or not. Effectiveness suits the main feature that influences the aim accomplishment of an organization. Consequently, the organization should seek to conduct activities that assist them to meet their aims. The internal audit should be so effective which they could meet the aims of their audit function. Internal audit effectiveness is the proxy to assess whether the internal audit task is capable to meet the aim of that task. Many factors have significant impact on internal audit effectiveness. Arena and Azone (2009) report that internal audit effectiveness derived by feature of the audit team, audit proves and the organization relationship. Mihret and Yismaw (2007) mentioned that organization features could impact positively and negatively on internal audit effectiveness. Alzeban and Gwilliam (2014) report that management support; independence and competence of internal audit team have positive relationship with internal audit effectiveness.

### **Internal Audit in Kurdistan-Iraq:**

The vital role of internal audit is to enhance the performance of organization, evaluating and developing the internal control system and participating in supporting all types of risk management, control and governance procedures. Internal audit is the main mean to prevent fraud and mismanagement of the organization resources. Although internal audit in all colleges is working under the direct control of the presidency of universities in Kurdistan region while the process is distributed between the college and the university (to which the is connected) and the internal audit of the governorate treasury, which (in addition to approving the disbursement) conducts the audit of the college records as an accounting unit. The researchers found that the government accounting system is mixed between centralization and decentralization. The audit of the financial transactions is carried out by the executing units of the budget and it is one of the responsibilities of those units and within their administrative formations. Which exposes them to severe criticism of their lack of independence and their on administration pressures in order to go along with irregular transactions, often to the rules and instructions of the implementing the budget, this encourages financial corruption which is supposed to be put to end because the public budget with its approved financial allocations and revenues to be levied is subject to review by the ministry of finance as a sovereign budget.

### **Literature Review and Hypotheses Development:**

Determining of hypotheses has been made according on previous academic literature. This research allocates this part to develop three hypotheses.

### **Independence of the Internal Audit (IND):**

Independence improves auditor ability to get the best results and communicate to the board of directors in a transparent and without the influence of any party. Independence has long been seen as a key of showing the important role of the internal auditor. The assurance services provided by the internal auditors derive their credibility and value from the essential presumptions of independence of mind and independence in appearance (Stewart and Subramaniam, 2010). Although emphasis has historically been on external audit independence, professional bodies and

standard-setters have placed increasing weight on the need for independence and objectivity despite the fact that internal auditors are normally employees of the organization. The independence and objectivity of the IAD has been identified as a key element of its effectiveness (CIPFA, 2003). It is important that one of the most important obstacles that stand in the way of objective and successful audit is the lack independence, and if the element of independence is an important requirement in all the departments of the organization, it is first of all to be present in the audit performance which most of its performance comes from that its main objective is to ensure that the organization as full as possible. According to the above, the following hypothesis is suggested:

H<sub>1</sub>: There is a relationship between independence and internal audit effectiveness.

#### **Management Support for Internal Audit (MSUP):**

Internal audit is considers as an important part of the organization. The internal audit activity is a part of the organizational structure of the firm and it is natural that the internal audit activity is influenced by the extent of management support to internal audit and work on internal audit success. The definition of internal audit includes issues like good monitoring which relies to some extent on professional management in assuring accurate internal audit performance (Mustika, 2015). Ahmad et al. (2009) found that management support was the second most important determinant of IAE within the Malaysian public sector, after auditing staff capabilities. With the support of top management, internal auditors can obtain sufficient resources to execute their duties and responsibilities, and the IAD can hire qualified staff and provide continuous training and development (Alzeban and Sawan 2013, Cohen and Sayag, 2010). The IIA definition of internal auditing embodies issues such as good governance, which partly relies on the professionalism of management to ensure a rigorous internal audit function. In recognition of this issue, senior management have given importance to the audit function and changed their expectations of internal auditing (Carcello et al., 2005). According to what was presented based on above, we can formulate the following hypothesis:

H<sub>2</sub>: There is a relationship between management support and internal audit effectiveness.

#### **Competence of the Internal Audit (COM):**

One of the important factors which improve internal audit effectiveness is competency (IIA, 2006). The competence if IA is comprise of four elements for instance, knowledge, professional proficiency, experience and skills (Mahzan & Hassan, 2015). According to Institute of Internal Auditors (IIA) the competency of internal audit staff is a key component of effective internal audit practices (IIA, 2006). Consistently, standard-setters have always emphasized on the importance of internal auditors who present appropriate level of experience, knowledge, skills, and other competencies needed to conduct their tasks and responsibilities (ISPPIA). Internal auditor's competence reflects their abilities to conduct audit activities properly (Mustika, 2015). Internal audit department that possess qualified members are more likely to deal with any issues inside the department and enhance organization performance. Previous literature highlighted the importance of internal audit and its role to improve public sector performance (Mu'azu Saidu Badara, 2013; Vijayakumar & Nagaraja, 2012). According to above discussion, it is indicate that internal audit is more effective if it has been conducted by qualified members. It can be suggested that the better educational qualification, work experience, continue development and professional qualification, the better the internal auditor effectiveness. Thus this discussion leads to the following hypothesis:

H<sub>3</sub>: There is a positive relationship between competence and internal audit effectiveness.

## METHODS

Ordinary Least Squares (OLS) were operationalizing to estimate the impact of the three factors (independent variables) on IAE (the dependent variable). Colleges have been used as a unit of analysis, with responses from 15 directors of colleges and 15 internal audit managers at University of Duhok. All respondents occupy director position are PhD holder. The majority of respondents work as internal audit managers is Bachelor's degrees, 91% in accounting and 9% in a subject other than accounting. The basic OLS regression model was:

$$IAE = b_0 + b_1IND + b_2MSUP + b_3COM + ei$$

Where IAE = indicates to internal audit effectiveness.

IND = independence of the internal audit department.

MSUP = management support for internal audit.

COM= competence of the Internal Audit

### Measurement of Variables:

This study score are average score on 5-point Likert scale, 1 is the extend that the respondents strongly disagree, and 5 is the extend that respondents strongly agree. There are several indicators utilized to measure each variable.

- 1- Independence of the internal audit: independence is measured using seven items for instance, removal and appointment of internal audit staff, the level of independence, direct contact with senior management, reporting level, unrestricted access to all department and employees, conflict of interest and interference.
- 2- Management support of internal audit: management support is measured using some indicators for instance, involvement in the internal audit plan, supporting internal audit, the resources of the internal audit, management's response to internal audit reports and reports on the work of internal audit team being delivered to the management.
- 3- Competence of the Internal Audit: It is measured using four indicators are professional qualifications, educational qualification, average annual training hours (continuous development) and work experience in the field of internal auditing.
- 4- The internal audit effectiveness was measured by internal auditor perception based on these indicators, the ability to make a plan, improving organizations' productivity, consistency with the goal, implementing internal audit recommendation, evaluating the risk management, evaluating the internal control system, recommendation for improvement.

## RESULTS AND DISCUSSION

Cronbach's alpha was calculated to determine the relation for which the items are maximally associated with one another and minimally associated with other variables. Management support for internal audit which consist of 5 items with a reliability of .77 (Cronbach's alpha). The second variable includes four items that dealt with competence of the internal audit (Cronbach's alpha .83), and third variable consist of seven items which covered independence (Cronbach's alpha .86). Reliability for the items measuring internal audit effectiveness was .87. Table 1 shows the correlation findings for the explanatory and explained variable.

IAE is positively associated with three variables ( $P < IND$ ,  $MSUP$  &  $COM$ ). In addition,  $MSUP$  is positively correlated with all other variables ( $p < .01$ ). Table 2 show regression findings. The overall model is significant at  $p < .01$  with an adjust  $R^2$  of 0.34. The coefficient of  $IND$

displays insignificant relationship with IAE, proposing that IND isn't independent and it is working under management supervision and it has limit scope, work and resources. The result is aligns with that of Al-Twijry et al. (2003) suggesting that interaction between top management and internal audit staff is significant for determining objectivity and independence of internal audit.

**Table 1.** Pearson correlation coefficients for the variables in the model.

|        | 1      | 2      | 3     | 4    |
|--------|--------|--------|-------|------|
| 1.IAE  | 1.00   |        |       |      |
| 2.IND  | 0.57** | 1.00   |       |      |
| 3.MSUP | 0.57** | 0.44** | 1.00  |      |
| 4.COM  | 0.66** | 0.42** | 0.46* | 1.00 |

\*\*Correlation is significant at the .01 level.

**Table 2.** Regression results

| Variables | Coef. | Std. Err. | t     | P-value | Tolerance | VIF   |
|-----------|-------|-----------|-------|---------|-----------|-------|
| IND       | .006  | .071      | 0.09  | 0.926   | 0.835     | 1.182 |
| MSUP      | .498  | .126      | 3.93  | 0.001   | 0.617     | 1.623 |
| COM       | 0.301 | 0.084     | 2.802 | 0.006   | 0.565     | 1.624 |

R<sup>2</sup>= .38

Adjusted R<sup>2</sup>= .34

F = 28.269

P < .01

The coefficient of MSUP shows a positive and significant relationship between MSUP and IAE with  $p < .01$  (supporting hypothesis 2), proposing that higher IAE is correlated with the existing of support from management. The coefficient of COM shows a positive and significant relationship between COM and IAE with  $p < .01$  (supporting hypothesis 3), suggesting that staff competency of internal audit is strongly associated with internal audit effectiveness.

## CONCLUSION

This study offer evidence as to the manner in which IND, MSUP and COM contribute to perceive internal audit effectiveness at University of Duhok (public sector). Findings show management support and competence of the internal audit as key drivers of IAE. In contrast, independence of internal audit has no impact on internal audit effectiveness. Therefore, this study contributes to the existing literature on internal audit in Iraq, previously most of studies focused on private sector (e.g. Woodworth and Said 1996 & Al-Shetwi et al. 2011). Given the significance of the public sector within Iraq economic, this study explains internal audit drivers in Iraq. Unsurprisingly, this study has methodological limitations. It is questionnaire-based, and a measure of the variables, both the independent variables and dependent variable, is created based to the views of the internal auditors. Furthermore, very small number of populations has been used, so the findings will be difficult to be generalized to measure factors driving the internal audit effectiveness. Future research should pay attention to analyzing other drivers that might influence the effectiveness of internal audit department and to the number of the population.

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